

**TARGETED
PERFORMANCE AUDIT
OF THE WASHINGTON
STATE PATROL: COST
ALLOCATION STUDY**

CONDUCTED FOR THE
JOINT TRANSPORTATION
COMMITTEE

REPORT 05-16



REPORT DIGEST

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STATE OF WASHINGTON
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Overview

This is a targeted performance audit, which is focused on studying the cost allocation practices in place at the Washington State Patrol. The specific objective of the study is to determine which costs for services provided by the State Patrol should be borne by the Transportation Budget, and which should be borne by the Operating Budget. The study was conducted for the Legislative Transportation Committee and was authorized in the 2003-05 Biennial Transportation Budget.

Background

The 18th Amendment of the Washington State Constitution restricts the use of revenues collected from motor vehicle registration fees and vehicle fuel taxes to “highway purposes,” and denotes that this purpose includes “policing by the state of public highways.”

While a large portion of the State Patrol’s responsibility relates to traffic safety enforcement on the state highways, the Patrol is also involved in supporting a variety of other policing and public safety functions. These other services include investigative assistance for non-traffic crimes; operation of forensic laboratories; management of statewide criminal records; security and protection for state officials and the state capitol campus; inspections, regulation, and training to support fire safety; and operation of an emergency communication system.

The State Patrol receives nearly three-quarters of its funding in the Transportation Budget, and the balance is funded in the Omnibus (often referred to as Operating) Budget. Two separate legislative acts are passed to fund the State Patrol’s services, requiring coordination between multiple legislative committees. Developing the budget assumptions for the State Patrol involves identifying which services or portions of services should appropriately be funded in the two budget acts, based on the 18th Amendment.

Distinguishing Costs Not Simple

A number of issues complicate distinguishing services between transportation functions and non-transportation functions.

First, many State Patrol services are primarily related to transportation, or vice versa. For example, troopers primarily perform work on the highways related to traffic safety, but they also occasionally respond to other emergencies or crimes. Identifying the small portion of a service that is not transportation related may not be obvious. And while these may be small portions of certain services, they can still account for millions of dollars.

Second, there is not a detailed working definition of “transportation” expenses or services to assist the State Patrol or the Legislature.

Third, the financial systems used by the State Patrol do not provide sophisticated allocation tools.

JLARC Used Cost Accounting Principles to Analyze Services

Cost accounting, an established financial discipline used in private and public sectors, provides principles helpful for analyzing ambiguous costs. While cost accounting cannot specify the exact level of costs with complete certainty, it offers estimating methods to improve precision. JLARC's accounting consultant used a four-step process to distinguish Patrol costs, based on cost accounting principles.

First, the costs for existing organizational units were classified according to the category and primary objective of services provided by each unit. Second, organizational units that provide only transportation or only non-transportation functions were separated from units that serve both functions in a pooled manner. Third, the consultant established assessment criteria for evaluating cost accounting methods to allocate pooled costs. Fourth, alternate methods for allocating pooled costs were scored using the consultant's cost accounting criteria.

After recommending the best methods for allocating the costs of various organizational units, JLARC's consultant collected data to simulate the fiscal impact of these methods.

JLARC's Cost Allocation Analysis Shifts Funding Source for Several Items

JLARC's analysis shifts \$11.6 million from the 2003-05 Operating Budget to Transportation, and \$11.2 million from Transportation to Operating. These shifts, comprised of several individual items, essentially offset each other, resulting in a net change that increases the Transportation Budget's share of costs by \$0.4 million. The largest shift in costs occurs in the Technical Support program, with \$7.2 million in emergency communications costs accounting for the greatest single impact.

Currently, only 15 of the 68 organizational units within the Patrol allocate costs, whereas the JLARC analysis identifies that 31 of the 68 organizational units should have a cost allocation method applied.

A survey of other jurisdictions indicates that states with organizational and funding constraints comparable to Washington's face similar cost allocation challenges. However, the survey did not identify methods more sophisticated than those proposed in the JLARC analysis, and JLARC's methods appear to offer the best promise for improving the precision of cost allocation.

Despite Fund Source Shift, Organizational Units are Aligned with Programs

JLARC also analyzed different ways that the State Patrol organizes its cost information. While there is some confusion resulting from ways information is labeled and displayed in accounting reports, JLARC did not find problems with how this information is tracked in the financial system.

JLARC was able to identify valid explanations for examples of organizational costs that appear misaligned with budget programs. In fact, the organizational structure looks different from budget programs since it has evolved to keep pace with the changing role of services, while the program structure has remained static.

Costs by activity, a third view for organizing fiscal information, is the most useful view for understanding State Patrol services, but has limitations. Activity costs reflect planned but not actual expenditures, and this information is not fully linked to performance outcomes data at this time.

Recommendations to Improve State Patrol Cost Allocation

Recommendation 1: The State Patrol, Office of Financial Management, and the Legislature should update allocation methods used for budgeting and accounting, using the approaches outlined in JLARC's study.

Recommendation 2: The State Patrol should refresh cost allocation statistics annually.

Recommendation 3: The State Patrol should modify certain management data tracking elements to further improve future cost allocation.

Recommendation 4: Staff from the Legislature, OFM, and the State Patrol should collaborate to develop a common definition for "transportation-related" services to ensure all three groups treat ongoing and future costs consistently.

Recommendation 5: The State Patrol should develop formal policies and procedures for implementing new cost allocation practices.